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Trump tariff uncertainty rattles clients as advisors look for hedges
By Rob Burgess
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Throughout his 2024 campaign, President Donald Trump promised to levy stiff tariffs on many U.S. trade partners, creating uncertainty in global markets.

On Monday, he made good on those promises, in a way, and created even more uncertainty.

Just as he did during his first term, Trump has placed sweeping tariffs on Chinese goods.

He was set to do the same for Mexico and Canada this week, until last-minute, one-month delays were announced.

Advisors say they are watching these changes closely, making portfolio adjustments where needed and generally reassuring nervous clients that they have planned for this sort of volatility.

Understanding the 'rules of the game'
Chris Stevenson, founder and principal at Forrest Financial Partners in New York City, said his firm is not making any wholesale shifts in response to these tariffs.

"I think this decision is prudent considering how dynamic the situation is," he said. "The fact that we saw one-month delays for Canada and Mexico just one day after the original announcement is a strong indicator that this will continue to be a very rapidly changing situation."

Kristin Hull, founder and chief investment officer at Nia Impact Capital in Oakland, California, said her firm is still unsure about the effect of these tariffs because, "in typical Trump fashion, there is more chaos than clarity about both the intent and how these policies will actually play out for companies, consumers, clients and investment strategies.

"There will definitely be volatility in the short-term as markets do not appreciate this much uncertainty," she said.

Jason DeLorenzo, owner and principal for Ad Deum Funds in Chantilly, Virginia, said "as is the case many times with Trump, what he says isn't what he really means."

"He will say things that are not necessarily true to push an agenda that isn't what he's actually saying at face value," he said. "The sentiment resonates, even if the words are not necessarily true, and that's the root of his success."

Despite this tariff talk, over the long term, Robert A. Duncan, owner of Global Impact Wealth Management in Riverside, California, said profitable companies that provide valuable services and products will do well.

"All businesses want to understand the 'rules of the game,' if you will," he said. "When there is a new administration implementing new policies — initiatives, taxes, tariffs, whatever — we tend to see increased volatility due to confusion and uncertainty. Once the 'rules' become clearer, companies can determine how to navigate the new financial landscape."

Duncan said stocks, for example, historically tend to do well regardless of which party is in political power.

"We see increased volatility during election season because the future is uncertain," he said. "Then, once the new policies are laid out and the direction sent, businesses adjust to the new environment. Will this time be different? Only time will tell."

Adjusting to the reality of stagflation

Because of these tariffs, it will now cost extra to import many goods, a cost that will be passed onto the consumer. This creates stagflation, which is higher inflation without higher production.

DeLorenzo said tariffs will hurt earnings and economic production, but equities can be a hedge on inflation.

"Overall, I think that the economic slowdown will hurt the market more than inflation can help it, but the results will be a tense and slow downturn in markets over the next several years from tariffs," he said.

Rachel Gustafson, investment advisor representative at Financial Investment Team in Portland, Oregon, said her firm expects rising prices across multiple industries, contributing to inflation and pushing interest rates higher.

"This inflationary environment could persist for three to four years as the federal government works to restore economic stability and regain control over these factors," she said. "Ultimately, we do not see a meaningful upside to implementing tariffs in this manner. The economic consequences, including reduced trust, supply chain disruptions and inflationary pressures, seem to outweigh any short-term gains."

Tariffs can have short- and long-term consequences

The recent tariffs introduced by the White House have added layers of complexity and uncertainty to traditional investment strategies, said Daniel Masuda Lehrman, founder and lead financial planner at Masuda Lehrman Wealth in Honolulu.

"In the short-term, we might see volatility in sectors reliant on imports, such as manufacturing and consumer goods, which can then impact client portfolios significantly," he said. "Long-term, though much harder to predict, these tariffs have the potential to reshape global supply chains and benefit sectors like domestic manufacturing and technology that can adapt quickly."

Gustafson said her firm believes tariffs can be useful when applied for the right reasons, such as protecting domestic industries and safeguarding trade secrets. However, she said, using tariffs as a tool to undermine trading partners can have long-term consequences.

"While this approach may yield immediate compliance, it can erode trust among both affected nations and those observing from the sidelines, making them less willing to engage with the U.S. in the future," she said.

Sonu Varghese, vice president and global macro strategist at the Carson Group in Chicago, said these tariffs are likely to push potential Federal Reserve rate cuts out further into the future, as the Fed waits for more clarity on policy and impact.

"This is likely to create increased volatility as markets get whipsawed both ways," he said. "Ultimately, the strength of the U.S. labor market and potential opportunities like tax cuts are likely to outweigh the threats of tariffs and elevated rates."

Typically, policy-type moves tend to add short-term volatility to the markets, both equities and fixed income, while the players try to determine how things are all going to shake out, said Duncan.

"For well-diversified investors, riding out this volatility without making any sudden or large re-allocations has proven to be a sound strategy," he said. "There may certainly be a case where someone may have large sector weightings or single security exposure that may need to be addressed. For people in those situations, they should talk with an advisor to evaluate their situation and determine a plan going forward."

Portfolio adjustments in the face of tariffs

Stevenson said he is reminding clients that their portfolios are already structured to mitigate the most acute risks from these tariffs. For clients who do want to explore ways to reinforce their portfolios, he typically recommends they explore adding diversified commodities exposure as a potential hedge against inflationary pressures that might arise from escalating global tariffs.

"We construct portfolios of high-quality businesses and diversify broadly across regions and industries to minimize the chance that any single factor could impair their capital," he said. "We're advising clients against reacting to short-term policy shifts and instead to focus on long-term fundamentals and portfolio resilience. We establish a financial plan for each client, and that helps act as an

anchor point that we can use to focus on long-term strategy instead of short-term concerns."

In the short term, Gustafson said her firm's portfolio adjustments focus on removing companies heavily reliant on trade, including both importers and exporters, as well as businesses that depend on foreign-sourced parts.

"Large multinational corporations are expected to be the most affected due to their international exposure, whereas small- and mid-cap companies, which tend to have more domestic sales and supply chains, may experience less disruption," she said. "However, this advantage will only last as long as the tariffs remain in place. Larger companies, while more exposed, also have greater flexibility to adjust pricing strategies to offset rising costs compared to smaller firms."

From a sector perspective, Gustafson said the tariffs set to be imposed on Canada and Mexico will primarily impact consumer discretionary goods that rely on overseas manufacturing or foreign-sourced components.

"Similarly, the industrial sector will face challenges due to supply chain disruptions and increased costs," she said. "While the U.S. may eventually find alternative sources for these materials, the process will be slow and inefficient, with substitutions likely occurring before exact replacements are secured. This reality will persist as long as the tariffs remain in place."

Varghese said increased policy risk has led his firm to shift some of its small-cap overweight positions to mid-caps and large-caps.

"This includes some low-volatility stocks exposure as well as quality stocks exhibiting strong momentum, in a bid to further diversify the portfolio," he said. "We also reduced some international positions, which may be exposed to the headwind of a stronger dollar. We continue to diversify our diversifiers given the uncertainty, including positions in gold, managed futures and even Treasury Inflation Protected Securities (TIPS)."

DeLorenzo said his firm continues to employ a hedged equity strategy, using options to control the risk on client portfolios.

"As such, there won't be much of a change except to tighten risk a bit for clients who have higher liquidity needs," he said. "Any sector that relies on goods will be hurt more than service-based businesses, even if domestic. This is because commodity prices should be on the rise, so input costs will rise. Then the business needs to make the decision of whether to pass that cost to the customer or eat it themselves. Either way, they should see lower profits from tariffs."

Hull said the obvious questions come up for automobiles as many of the parts are either made in China or components that come from China, even for U.S. brands.

"Chips and semiconductors, a mainstay in so many of our products — from

computers to cellphones to cars — are also mainly made in China and Taiwan," she said.

Some tariffs could push our energy consumption toward more renewables such as wind, solar or wave, said Hull.

"While some solar panels are manufactured abroad, the opportunity to produce power within the U.S. will become more and more important amidst imminent trade wars," she said. "Tariffs on fossil fuels could help speed up the shift toward more sustainable energy sources and the economy."

Deepak Goyal, financial advisor and founder of 3D Holistic Wealth in Irvine, California, said one of the most effective ways to prepare for market volatility triggered by tariffs is through strategic portfolio positioning. His approach involves using options and other derivative strategies that can protect 10% to 30% of a portfolio's downside while capping the upside.

"In more conservative cases, we can provide even more downside protection," he said. "This trade-off allows investors to sleep well at night, knowing that even if tariffs lead to a market downturn, their portfolio is insulated from major losses. And if markets do drop significantly, having downside protection provides an attractive opportunity to deploy capital at lower valuations."

The biggest challenge with new tariffs is their unpredictability, as they may not materialize as expected, or they could escalate suddenly, said Goyal.

"Rather than reacting to headlines, I advise clients to focus on long-term, risk-adjusted strategies that position them well regardless of what happens," he said. "Tariff-driven volatility can create short-term market shocks, but for those prepared, it can also present opportunities. By proactively managing downside risk, investors can turn uncertainty into an advantage rather than a setback."